

MUNICIPALITY OF METROPOLITAN SEATTLE
King County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. Metro Needs To Strengthen Controls Over Fixed Assets

Beginning with fiscal year 1993, Metro's fixed asset section initiated the unofficial procedure of neither tagging nor inventorying asset acquisitions or recording dispositions of assets costing less than \$5,000 each. All asset purchases including those purchased with federal funds are effected. During the first six months of fiscal year 1993, approximately \$715,000 of assets purchased in Funds 001 and 002 were neither individually tagged nor coded into the fixed asset system.

Metro's *Administrative Policies and Procedures No. 13*, effective January 1, 1992, provides guidelines for costs that will be accounted for as part of the cost of a fixed asset, states in part:

Fixed Asset: A unit of real or personal property that Metro owns or has assured use of, for conducting Metro business, that has an expected useful life of more than one (1) year and that has an initial acquisition cost of \$1,000 or more.

"Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements to State And Local Governments*, issued by the Office Management and Budget, March 1988, requires in Subpart C, Post-Award Requirements, Financial Administrations, Subsection 32 Equipment (c) 4 (d):

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Generally accepted auditing standards (GAAS) *Statement of Auditing Standard (SAS) 55*, (Appendix D) states in part:

The purpose of comparing recorded accountability with assets is to determine whether the actual assets agree with the recorded accountability. If the comparison reveals that the assets do not agree with the recorded accountability, it provides evidence of unrecorded or improperly recorded transactions.

The procedure of tagging assets currently in place at Metro will not permit tracing of individual assets costing between \$1,000 to \$5,000 in value back to the fixed asset

accounting system.

The effect of not tagging or logging assets under \$5,000 but above \$1,000, into the Metro fixed asset accounting system is to materially reduce controls over assets. This, in turn, results in a higher probability that errors or irregularities could occur and not be timely detected. This is especially true for portable and attractive items such as computers which have a high potential for misappropriation.

This change in control methods by the Metro fixed asset department was initiated because they felt it would reduce the time spent by the accountant in logging equipment in and out of the fixed asset accounting system.

We recommend that Metro's fixed assets section follow Metro's official policy and identify, tag, and inventory all assets over \$1,000. This would include fixed assets purchased beginning January 1, 1993, when the unofficial policy was initiated by the fixed asset department.

2. Metro Officials Should Comply With Federal Grant Requirements And Metro Purchasing Policy In The Approval And Bidding Procedures

Information systems (computer) temporary professional services amounting to \$582,000 were purchased from the RHO Company without council approval or executive director approval. Metro Resolution No. 6215 requires council approval or executive director approval for services which exceed \$35,000. Metro officials initially bid this item in the amount of \$184,277, however, the purchasing department subsequently increased this purchase order to a total of \$897,000 without bidding the subsequent increases and without obtaining approval by the Metro council or executive director. Federal transit operating grants were charged with \$5,000 of these expenditures.

Metro Resolution No. 6215, Section 3 under A. Competitive Sealed Bids, states in part as follows:

Equipment, materials, supplies and non-professional services purchased and work ordered, the estimated cost of which is in excess of \$35,000 shall be let by contract upon competitive sealed bidding

Federal requirements require bidding of expenditures which exceed \$25,000.

Metro officials believed these services were approved within the Metro long range plan and were for routine services. Metro also combined several consulting contracts together for efficiency.

These purchases do not follow federal grant requirements or Metro council resolution.

We recommend Metro officials comply with grant requirements and Metro's purchasing policy established by Resolution No. 6215.

3. Metro Officials Should Limit Purchases To Contract Amounts

Metro's purchasing department has been allowing purchases which exceed dollar limitation established by blanket purchase orders. Purchase order amounts within the system are set in order to control purchases from outside vendors. For example, the RHO contract was overspent by approximately \$86,000 prior to a contract increase in November 1992.

Our testing of the RHO contract also revealed that the purchasing system does not control the contract approved rate for a job position versus the actual rate charged by the vendor for the same job position. For example, the contract pay range amount for data processing professional services is \$8 per hour to a maximum of \$25 per hour yet actual vendor invoices were for pay rates, which exceeded the maximum, included rates of \$39, \$40, \$50, and one for \$125 per hour.

Metro's accounts payable system has the ability to limit vendor billings to the blanket purchase order amounts and write a report for the buyers review. However, it was felt that buyers lack the time to review system reports, therefore, the systems reporting capability was turned off and there are no compensating controls. The system apparently does not have the ability to limit or review vendor billings by line item versus contract amounts by line item.

By not limiting purchases to purchase order amounts, purchases can exceed approved contracts and agreed upon amounts.

We recommend Metro officials limit purchases to approved purchase order amounts. We further recommend that vendor billings be reviewed to ensure that billed amounts do not exceed the contract or purchase order line approved amounts.

4. Metro Officials Should Improve Access Security

During our audit we noted weaknesses in Metro's security over access to its computer systems. We classified Metro's computer systems into four different categories:

- a. Mainframes under the control of the Information Systems Department (ISD), including the IBM housed at King County Systems Service Division,
- b. Mainframes and minicomputers under the responsibility of user departments,
- c. Local area networks controlled by various departments, and
- d. Personal computer systems maintained by the user departments.

For the mainframe computers controlled by ISD, we did not find any material reportable conditions.

Metro has seven mainframe computers purchased partially with grant funds. These are used for system development and to manage and control water quality operations. The following conditions were noted for these mainframe computers:

- Less emphasis has been placed on security for these computers.
- Access security is not controlled by ISD, but by various system administrators over specific departmental computers. Departmental security procedures and controls are not reviewed by the ISD security officer. If a systems administrator does not adequately establish access security, unauthorized access can be gained to these systems.

Metro has personal computers on local area networks that are used for financial, operational, and management applications. The networks connect the IBM, PRIME, and DEC mainframes, and individual personal computers with each other. The departments where the networks are located have been assigned the responsibility of establishing and maintaining network security. The following conditions were noted for the Metro network systems:

- Network security is not always documented.
- The ISD security officer does not review the established security over the networks.
- The Novelle Netware security for some networks allows users access without passwords; does not force specific users to change their password; and allow the use of easily identifiable passwords. Without adequate controls, it is possible material errors and irregularities could occur and not be timely detected, or could cost Metro loss of grant funds.

For personal computer systems:

Metro user departments have purchased or developed stand alone financial, operational, and management systems with limited access controls to the system and to the files. One such system is the Capacity Charge System that processes \$3.6 million yearly in receipts. The users can make unauthorized and incorrect changes to customer files without an audit trail. This exposes Metro to

undetected errors and irregularities which may not be timely detected.

Metro has established a security policy for computer systems. Establishing access security and privileges to computers outside of the Information Systems Department is the responsibility of the specific departments; however, knowledge of system access security is limited at the department level. Establishing security within ISD is the responsibility of the security officer; however, the security officer does not have the resources available to confirm that Metro's access security policy is being followed.

We recommend Metro officials improve access controls over its computer systems to ensure adequate access security is established for Metro computers containing critical production programs and data files. We further recommend security reports be produced and reviewed on an on-going basis by the security officer for critical computer systems.

5. Metro Officials Should Develop A Disaster Recovery Plan

Metro does not have a disaster recovery plan for the financial, management, and operating systems on the IBM, Digital Equipment Corporation (DEC), and personal computer (PC) systems. Metro is establishing a disaster recovery plan for several of the management and operational systems processed by the DEC to meet federal grant criteria and to reduce possible liabilities associated with the water/sewage quality and transit operations.

Metro relies on King County's disaster recovery plan because it includes their financial systems. The disaster recovery plan for the operational and management systems had not been developed prior to this year because technical expertise was needed in establishing the systems.

Our review of King County's disaster recovery plan determined the plan was inadequate for Metro. Metro has not identified its critical systems for King County and an alternative processing site has not been established. The DEC system used for process control is not under Information System Division management. Although a plan is being developed, if a disaster occurs, there is a possibility of a material accident or error.

There is no disaster recovery plan for the 50 network systems or stand alone PC systems in Metro. If a disaster were to occur information could be lost that would be difficult to recreate. Examples of lost information would be financial records such as receipts, fixed assets, payables, grants; operational records such as control information for water and transit; and management information such as account analysis.

We recommend Metro officials develop a disaster recovery plan.

6. Metro Officials Should Strengthen The Year-End General Ledger Journal Entries Review And Approval Process

Metro officials did not review and approve journal entries recorded to the Metro Micro Trial Balance System.

At year end, Metro accounting personnel use a small system called the Micro Trial Balance System in which journal entries are made to complete the accounting for the year and prepare financial statements. Because this system is not part of the normal general ledger system, journal entries are not reviewed or approved by a person other than the preparer.

Without review and approval by a person other than the preparer, there is a greater potential for errors and irregularities to occur in the financial reporting system and not be detected in a timely manner.

We recommend all entries include review and approval prior to entry into the accounting system.

7. Metro Should Meet The Buy America Requirements

Metro purchases parts manufactured in Italy for buses which does not meet federal "Buy America" requirements. Metro's bus contract (Contract B33240) with Breda Construction is funded under operating grants from the Federal Transit Authority (FTA).

The *Code of Federal Regulations* (CFR), 49 CFR, Section 661.5 states:

(a) Except as provided in Sections 661.7 and 661.11 of this part, no funds may be obligated by FTA for a grantee project unless all steel and manufactured products used in the project are produced in the United States.

49 CFR, Section 660.11 (b) states:

Only domestic end products may be procured with assistance provided by FTA unless the Administrator waives the application of these requirements

While Metro's 1988 Breda contract for the purchase of buses met 'Buy America' requirements, Metro did not confirm that the replacement equipment and parts contract would also meet these requirements.

49 CFR, Section 660.21 further states:

(c) The grantee shall include in its bid specifications a statement that a waiver from the Buy America provision will be sought if the grounds for a waiver exists.

The Breda equipment and parts contract would qualify for a waiver if Breda would sign a request stating that they cannot meet the "Buy America" requirements. However, Breda would not sign a waiver.

Metro officials said that some equipment and parts are not available in the United States. Also, it is not cost effective to manufacture such equipment and parts in the U. S. due to patent rights and thus are available only from Breda.

Metro cannot receive a waiver unless Breda requests it and the FTA regional office refuses to grant a waiver without Breda's request. Metro is working with Breda and FTA to come into compliance with this provision.

We recommend Metro formally request a waiver from FTA for the Breda Construction equipment contract to meet the Buy America grant requirements.